

WITTLER & CZICHOWSKI  
Chartered Accountants

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**PERO DEVELOPMENT GROUP INC.**  
(formerly Aviva Petroleum Canada Inc.)

**FINANCIAL STATEMENTS**

To the Shareholders of Pero Development Group Inc. **DECEMBER 31, 1993**


We have audited the balance sheet of Pero Development Group Inc. (formerly Aviva Petroleum Canada Inc.) as at December 31, 1993 and the operations of the two subsidiary companies and changes in equity positions for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance about the consolidated financial statements as a whole or material misstatements, as such, whether originating in a bad faith, whether originating in the accounts and disclosures in the financial statements, or as a result of the company's accounting policies and significant accounting estimates of management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material aspects, the financial position of the Company as at December 31, 1993 and the results of its operations and the changes in its equity positions for the year then ended in accordance with generally accepted accounting principles.

Calgary, Alberta  
May 4, 1994

WITTLER & CZICHOWSKI  
Chartered Accountants



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# WITTLER & CZECHOWSKY

Chartered Accountants

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\*denotes professional corporation

## AUDITOR'S REPORT

To the Shareholders of Pero Development Group Inc.

We have audited the balance sheet of Pero Development Group Inc. (formerly Aviva Petroleum Canada Inc.) as at December 31, 1993 and the statements of loss and retained earnings and changes in cash position for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1993 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Calgary, Alberta  
May 4, 1994

*Wittler & Czechowsky*  
CHARTERED ACCOUNTANTS





PERO DEVELOPMENT GROUP INC.  
(formerly Aviva Petroleum Canada Inc.)

BALANCE SHEET

DECEMBER 31, 1993

ASSETS

	<u>1993</u>	<u>1992</u>
<b>CURRENT</b>		
Cash and term deposits	\$ 3,413	\$ 315,530
Cash held in trust (note 2)	189,329	16,158
Accounts receivable	92,086	245,680
Investment in subsidiary (note 1)	2	-
Investment in preferred shares (note 3)	2,930,174	-
Current portion of note receivable (note 9)	-	176,941
Note receivable (note 5b)	-	274,989
Assets held for sale (note 6)	-	2,733,800
	<u>3,215,004</u>	<u>3,763,098</u>
 NOTE RECEIVABLE (note 9)	 <u>-</u>	 <u>649,079</u>
	 <u>\$ 3,215,004</u>	 <u>\$ 4,412,177</u>

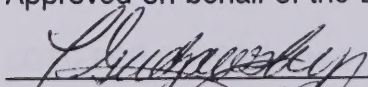

LIABILITIES

<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 43,422	\$ 229,220
Payable to minority shareholders	175,545	-
Payable to parent company (note 4)	2,930,174	-
Current portion of long-term debt (note 9)	-	63,540
	<u>3,149,141</u>	<u>292,760</u>
 LONG-TERM DEBT (note 9)	 <u>-</u>	 <u>195,130</u>
	 <u>3,149,141</u>	 <u>487,890</u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL (note 7)	49,620	11,494,682
RETAINED EARNINGS (DEFICIT)	<u>16,243</u>	<u>(7,570,395)</u>
	<u>65,863</u>	<u>3,924,287</u>
	<u>\$ 3,215,004</u>	<u>\$ 4,412,177</u>

Approved on behalf of the Board:

 , Director  
 , Director





PERO DEVELOPMENT GROUP INC.  
(formerly Aviva Petroleum Canada Inc.)

STATEMENT OF LOSS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1993

	<u>1993</u>	<u>1992</u>
REVENUE		
Oil and gas sales, net of royalties	\$ -	\$ 801,722
Marine charter fees	-	223,582
Interest and other	94,296	54,395
Alberta royalty tax credit	-	39,293
Equity in earnings of affiliates	<u>-</u>	<u>26,765</u>
	<u>94,296</u>	<u>1,145,757</u>
EXPENSES		
General and administrative	305,764	719,287
Interest expense	-	43,180
Oil and gas operating	-	472,839
Depletion and depreciation	<u>-</u>	<u>304,758</u>
	<u>305,764</u>	<u>1,540,064</u>
OTHER ITEMS		
Minority interest in subsidiary	-	117,345
Foreign exchange gain (loss)	125,317	(62,286)
Loss on sale of marine tanker	-	(157,519)
Write-down of assets held for sale	<u>-</u>	<u>(1,715,989)</u>
	<u>125,317</u>	<u>(1,818,449)</u>
NET LOSS	(86,151)	(2,212,756)
DEFICIT, beginning of year	(7,570,395)	(5,357,639)
Share cancellation	1,457,695	-
Stated capital reduction	<u>6,215,094</u>	<u>-</u>
RETAINED EARNINGS (DEFICIT), end of year	<u>\$ 16,243</u>	<u>\$ (7,570,395)</u>
LOSS PER SHARE (note 1)	<u>\$ (0.005)</u>	<u>\$ (0.13)</u>





PERO DEVELOPMENT GROUP INC.  
(formerly Aviva Petroleum Canada Inc.)

STATEMENT OF CHANGES IN CASH POSITION

FOR THE YEAR ENDED DECEMBER 31, 1993

	<u>1993</u>	<u>1992</u>
OPERATING ACTIVITIES		
Net loss	\$ (86,151)	\$ (2,212,756)
Add (deduct) items not involving cash		
Write-down of assets held for sale	-	1,715,989
Depletion and depreciation	-	304,758
Equity in earnings of affiliates	-	(26,765)
Loss on sale of marine tanker	-	157,519
Minority interest in subsidiary	-	(117,345)
Foreign exchange loss	-	62,286
Change in non-cash working capital items related to operations	<u>(277,411)</u>	<u>72,146</u>
	<u>(363,562)</u>	<u>(44,168)</u>
FINANCING ACTIVITIES		
Stated capital reduction (note 7c)	(3,105,720)	-
Proceeds from note receivable	274,989	-
Share cancellation	(245,803)	-
Issuance of share capital	-	611,027
Cancellation of share capital upon sale of investment	(420,750)	-
Long-term debt	<u>-</u>	<u>317,701</u>
	<u>(3,497,284)</u>	<u>928,728</u>
INVESTING ACTIVITIES		
Proceeds from asset sales	662,050	1,213,444
Receipt of shares from sale of investment	420,750	-
Purchase of subsidiaries	-	(1,641,600)
Notes receivable	-	(1,101,009)
Purchase of marine tanker	-	(1,139,970)
Petroleum and natural gas properties	-	(314,986)
Decrease in deferred credits	-	(27,500)
Proceeds related to subsidiary company balances (note 9)	<u>2,639,100</u>	<u>-</u>
	<u>3,721,900</u>	<u>(3,011,621)</u>
DECREASE IN CASH AND CASH HELD IN TRUST	(138,946)	(2,127,061)
CASH AND CASH HELD IN TRUST, beginning of year	<u>331,688</u>	<u>2,458,749</u>
CASH AND CASH HELD IN TRUST, end of year	<u>\$ 192,742</u>	<u>\$ 331,688</u>



PERO DEVELOPMENT GROUP INC.  
(formerly Aviva Petroleum Canada Inc.)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1993

1. ACCOUNTING POLICIES

Investment in Subsidiary

The Company accounts for its wholly owned subsidiary Aviva Petroleum (Nassau) Corporation on the cost basis as the subsidiary is inactive and no future economic benefits will accrue to the company.

Loss Per Share

Loss per share has been calculated using the weighted average number of common shares outstanding during the year.

2. CASH HELD IN TRUST

Cash is held in trust for payment of the following:

	<u>1993</u>	<u>1992</u>
Well abandonment	\$ 14,163	\$ 16,158
Minority shareholders stated capital reduction payment	<u>175,166</u>	<u>-</u>
	<u>\$ 189,329</u>	<u>\$ 16,158</u>

3. INVESTMENT IN PREFERRED SHARES

On December 22, 1993 the Company purchased 2,930,174 redeemable, retractable, preferred shares of 418773 Alberta Ltd. On January 31, 1994 these preferred shares were redeemed at their original cost in exchange for the payable to parent company described in Note 4. The Company and 418773 Alberta Ltd. are related by virtue of common shareholders.

4. PAYABLE TO PARENT COMPANY

The payable to the Company's parent resulted from its share of a cash distribution to all shareholders. This distribution has been accounted for as a stated capital reduction. The payable was settled on January 31, 1994 in exchange for the preferred shares referred to in Note 3.





PERO DEVELOPMENT GROUP INC.  
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1993

5. RELATED PARTY TRANSACTIONS

- a) In conjunction with the sale of its oil and gas properties described in Note 6b the Company paid a commission of \$43,750 to a former officer of the Company.
- b) A former Chief Executive Officer of the Company, executed a promissory note in favor of the Company in the amount of \$215,000 U.S. This note was due and payable on September 30, 1993 and has been collected in full. Interest of \$13,537 U.S. was received on the note in the current year.

6. ASSETS HELD FOR SALE

- a) On January 6, 1993 the Company sold its 46% ownership in the Panamanian corporation engaged in marine terminalling and petroleum services in Panama to an unrelated party. Total consideration received was \$2,071,750 consisting of \$1,651,000 (\$1,300,000 U.S.) in cash and 2,475,000 common shares of the Company valued at \$0.17 per share. The Company wrote the investment down to this value at December 31, 1992 and recorded a writedown of \$215,365 in 1992.
- b) The Company entered into an agreement on February 10, 1993 to sell virtually all of its oil and gas assets to an unrelated party for \$675,000 cash and the assumption of certain liabilities. The sale was effective January 1, 1993. The Company wrote its oil and gas properties down to this value at December 31, 1992 and recorded a writedown of \$1,500,624 in 1992.

7. SHARE CAPITAL

Authorized

Unlimited number of common, first preferred and  
second preferred shares

	<u>Number of Shares</u>	<u>Amount</u>
Issued - Common		
Balance, December 31, 1992	21,216,588	\$11,494,682
Received on sale of subsidiary (a)	(2,475,000)	(1,340,893)
Shares cancelled (b)	(1,445,903)	(783,355)
Stated capital reduction (c)	<u>-</u>	<u>(9,320,814)</u>
Balance, December 31, 1993	<u>17,295,685</u>	<u>\$ 49,620</u>





PERO DEVELOPMENT GROUP INC.  
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1993

7. SHARE CAPITAL (continued)

- a) On January 6, 1993, the Company sold its 46% ownership in a Panamanian corporation. Part of the consideration was the redemption of 2,475,000 shares of the company.
- b) Pursuant to the regulations of The Alberta Stock Exchange and according to the provisions of the Business Corporations Act (Alberta), the Company made an offer to certain dissenting shareholders on May 3, 1993 to purchase their common shares for \$0.17 cash per share. 1,445,903 common shares were acquired by the Company for cash consideration of \$245,804.
- c) On December 22, 1993 the directors approved resolutions to adopt two stated capital reductions. The first reduction reduced stated capital and deficit by \$6,215,094. The second reduction resulted in payment of \$0.17 per share to all shareholders and a reduction in stated capital of \$3,105,720. These reductions were approved by the shareholders on January 31, 1994.

8. INCOME TAXES

The Company has non-capital losses for income tax purposes available to be carried forward and applied to reduce taxable income and income of future periods, subject to certain restrictions under the Income Tax Act. The amount of these losses cannot be determined until certain elections have been filed in relation to the sale of oil and gas properties (as noted in 6b). The benefits of the losses have not been recognized in these financial statements. As of December 31, 1992 the loss carryforwards were as follows:

<u>Expiry Date</u>	<u>Amount</u>
1993	\$ 369,000
1994	256,000
1995	101,000
1996	441,000
1998	487,000
1999	<u>168,000</u>
	<u>\$ 1,822,000</u>



PERO DEVELOPMENT GROUP INC.  
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1993

9. PROCEEDS FROM SUBSIDIARIES

Proceeds related to subsidiary company balances are as follows:

Note receivable	\$ 826,020
Assets sales	2,071,750
Long-term debt repayment	<u>(258,670)</u>
	<u>\$ 2,639,100</u>

10. PRIOR YEAR BALANCES

Certain of the 1992 balances have been reclassified to conform with the current year's presentation.

11. COMPARATIVE FIGURES

Financial statements for the previous year were reported on by other auditors.



